FRIENDSHIP TOWNSHIP EMMET COUNTY, MICHIGAN

Financial Statements

For the Year Ended UG 1 8 2004

March 31, 2004

LOCAL AURIT

Prepared By:

Richard E. Mahlmeister, C.P.A., P.C. 580 South Nicolet, P.O.Box 996 Mackinaw City, MI 49701

Michigan Deptartment of Treasury 496 (2-04) Auditing Procedures Report

	er P.A. 2 of 1				- Keho)					
Local Gove	ernment Type			Village	Other	Local Governme Friendship	ent Name O Township		Coun	-	County
Audit Date 3/31/04				Opinion Da 7/20/04	_		Date Accountant Report Subm 7/30/04	nitted to State:			
accordan	ce with the Statement	he Sta	iteme	ents of th	ne Governi	mental Accou	government and rendered inting Standards Board int in Michigan by the Mic	(GASB) and	the <i>Uniform</i>	Repo	ents prepared i orting Format fo
1. We have complied with the Bulletin for the Audits of Local Units of Government in Michigan as revised. RECEIVED DEPT. OF TREASURY											
2. We are certified public accountants registered to practice in Michigan. We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations											
You must	check the	applic	able	box for e	ach item be	elow.			LOCAL	AUDIT	& FINANCE DIV
Yes	✓ No	1. C	Certai	n compo	nent units/f	unds/agencie	s of the local unit are exc	luded from the	financial st	ateme	ents.
Yes	✓ No			are acci 1980).	umulated d	eficits in one	or more of this unit's un	nreserved fund	balances/re	etained	d earnings (P.A
Yes	✓ No		here mend		ances of n	on-complianc	e with the Uniform Acco	ounting and B	udgeting Ad	ct (P.A	2 of 1968, a
Yes	№ No	4. T	he id	ocal unit ements, o	has violate or an order	ed the condit issued under	ions of either an order the Emergency Municipa	issued under Il Loan Act.	the Municip	oal Fir	nance Act or its
Yes	✓ No	5. T a	he lo s am	ocal unit ended [M	holds depo ICL 129.91	osits/investme], or P.A. 55 o	nts which do not comply of 1982, as amended [MC	with statutory with statutory (CL 38.1132]).	/ requireme	nts. (F	P.A. 20 of 1943
Yes	✓ No	6. T	he lo	cal unit h	as been de	elinquent in dis	stributing tax revenues th	at were collect	ed for anoth	er tax	ring unit.
Yes	✓ No	7. p	ensic	n benefi	ts (normal	costs) in the	utional requirement (Arti current year. If the plan equirement, no contribution	is more than '	100% funde	d and	the overfunding
Yes	✓ No			cal unit 129.241)		t cards and h	nas not adopted an app	licable policy	as required	by P.	A. 266 of 1995
Yes	✓ No	9. T	he lo	cal unit h	as not ado _l	pted an invest	ment policy as required b	oy P.A. 196 of	1997 (MCL	129.95	5).
We have	enclosed	the fo	llow	ing:				Enclosed	To Be Forward		Not Required
The letter	of comme	ents ar	nd red	commend	dations.			~			
Reports o	n individu	al fede	eral fii	nancial a	ssistance p	rograms (pro	gram audits).				V
Single Audit Reports (ASLGU).					~						
Certified Public Accountant (Firm Name) Richard E. Mahlmeister, CPA, PC											
Street Address 580 South Nicolet Street, P.O. Box 996 Mackinaw City MI State 49701						01					
Accountant	Signature 9	K		Mo	Il	V.d.			Date 7/30/04		

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Member:

American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

July 20, 2004

Township Board Friendship Township Emmet County, Michigan

I have audited the accompanying general purpose financial statements of *Friendship Township*, *Emmet County, Michigan* as of and for the year ended March 31, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of *Friendship Township's* management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of *Friendship Township*, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of *Friendship Township*. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Richard E. Mahlmeister, C.P.A.



FRIENDSHIP TOWNSHIP COMBINED BALANCE SHEET ALL FUND TYPES, ACCOUNT GROUPS AND COMPONENT UNIT MARCH 31, 2004

	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPE	
ASSETS Cash and cash equivalents	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	TRUST AND AGENCY	
Investments	\$194	\$ -	\$ -	\$56	
Taxes receivable	66,243	61,841	123,268		
Due from other funds	6,353	-	-	-	
General fixed assets	56	-	-		
TOTAL ASSETS	\$72,846	\$61,841	\$123,268	\$56	
LIABILITIES AND FUND EQUITY					
LIABILITIES:					
Accounts payable	\$582	•			
Due to other funds	-	\$ - -	\$ -	\$ - 56	
TOTAL LIABILITIES	582	-	•	56	
FUND EQUITY					
Investment in general fixed assets Fund balances:	-	-	-	-	
Designated for subsequent years' expenditures	***				
Unreserved, undesignated	20,293	-	33,476	-	
,	51,971	61,841	89,792	_	
TOTAL FUND EQUITIES	72,264	61,841	123,268	_	
TOTAL LIABILITIES AND FUND EQUITY	\$72,846	\$61,841	\$123,268	\$56	

 ACCOUNT GROUP	TOTAL (MEMORANDUM	COMPONENT UNIT	TOTAL (MEMORANDUM
GENERAL	ONLY)	MIDDLE	ONLY)
FIXED	PRIMARY	VILLAGE	REPORTING
 ASSETS	GOVERNMENT	PARK	ENTITY
\$ -	\$250	s -	\$250
-	251,352	21,682	273,034
-	6,353	, -	6,353
-	56	-	56
 318,678	318,678	36,087	354,765
 \$318,678	\$576,689	\$57,769	\$634,458
 \$ - 	\$582 56	\$ - -	\$582 56
 -	638		638
318,678	318,678	36,087	354,765
-	53,769	-	53,769
 	203,604	21,682	225,286
 318,678	576,051	57,769	633,820
 \$318,678	\$576,689	\$57,769	\$634,458

FRIENDSHIP TOWNSHIP COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES ALL GOVERNMENTAL FUND TYPES AND COMPONENT UNIT FOR THE YEAR ENDED MARCH 31, 2004

	GOVER	NMENTAL FUND T	YPES	TOTAL (MEMORANDUM ONLY)
REVENUES	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	PRIMARY GOVERNMENT
Taxes				
State revenues	\$72,469	\$ -	\$ -	\$72,469
Charges for services	64,482	-	2,500	66,982
Interest and rents	1,710	-	,	1,710
Contributions from local units	367	463	814	1,644
Other	-	-	-	1,044
Other.	799			79 9
TOTAL REVENUES	139,827	463	3,314	143,604
EXPENDITURES				143,004
Current:				
Legislative				
General government	4,032	-	_	4,032
Public safety	59,239	•	_	59,239
Public works	10,964	-	_	10,964
Recreation and culture	22,390	-	_	22,390
Other	345	-	13,058	
Capital outlay	8,520	-	13,030	13,403
Capital Outiny	-	_	6,498	8,520
TOTAL EXPENDITURES	105,490	-	19,556	6,498
REVENUES OVER (UNDER) EXPENDITURES	34,337	463	(16,242)	125,046
OTHER FINANCING SOURCES (USES)			(10,242)	18,558
Operating transfers in				
Operating transfers out	•	-	20,000	20,000
Sperating transfers out	(20,000)		,	(20,000)
TOTAL OTHER FINANCING SOURCES (USES)	(20,000)	_	20,000	(20,000)
REVENUES AND OTHER FINANCING				-
SOURCES OVER (UNDER) EXPENDITURES				
AND OTHER SOURCES (USES)				
- STILL SOURCES (USES)	14,337	463	3,758	18,558
FUND BALANCES, BEGINNING OF YEAR,	57,927	61,378	119,510	238,815
FUND BALANCES, END OF YEAR	\$72,264	\$61,841	\$123,268	\$257,373

See Accompanying Notes.

COMPONENT	TOTAL
UNIT	(MEMORANDUM
MIDDLE	ONLY)
VILLAGE	REPORTING
PARK	ENTITY
\$ -	0=0.446
.	\$72,469
•	66,982
189	1,710
22,221	1,833
22,221	22,221
	799
22,410	166,014
-	4,032
-	59,239
-	10,964
-	22,390
7,845	21,248
-	8,520
36,087	42,585
43,932	168,978
(21,522)	(2,964)
-	20,000
	(20,000)
	_
(21,522)	(2,964)
43,204	282,019
\$21,682	\$279,055

FRIENDSHIP TOWNSHIP COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - GENERAL, SPECIAL REVENUE AND COMPONENT UNIT FOR THE YEAR ENDED MARCH 31, 2004

		GENERAL FUND	
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Taxes	\$73,705	673.460	
State revenues	58,000	\$72,469	(\$1,236)
Charges for services	800	64,482	6,482
Interest and rents	500	1,710	910
Other	8,100	367 799	(133)
TOTAL REVENUES	141,105	139,827	(7,301)
EVDENDENDENDE		137,027	(1,278)
EXPENDITURES Current:			
Legislative			
General government	4,432	4,032	400
Public safety	64,056	59,239	4,817
Public works	15,000	10,964	4,036
Recreation and culture	29,036	22,390	6,646
Other	345	345	
Capital outlay	14,519	8,520	5,999
TOTAL EXPENDITURES	127,388	105,490	. 21,898
REVENUES OVER (UNDER) EXPENDITURES	13,717	34,337	20,620
OTHER FINANCING SOURCES (USES)			
Operating transfers in			
Operating transfers out	(20,000)	(20,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(20,000)	(20,000)	
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES			
AND OTHER USES	(6,283)	14,337	20,620
FUND BALANCES, BEGINNING OF YEAR	57,927	57,927	
FUND BALANCES, END OF YEAR	\$51,644	\$72,264	\$20,620
_			920,020

See Accompanying Notes.

LINDS	AL PROJECTS FU	САРІТ	SPECIAL REVENUE FUNDS					
VARIANCE FAVORABLE		BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	ACTUAL	BUDGET			
(UNFAVORABLE	ACTUAL	DUDGET	(
		er.	\$ -	\$ -	\$ -			
\$	\$ -	\$ - 2,500	.		-			
	2,500	<i>2</i> ,500	-	-	-			
(386	814	1,200	(437)	463	900			
(386	3,314	3,700	(437)	463	900			
	-	-	-	-	-			
,	-	-	-	-	-			
	-	-	-	-	-			
	12.050	17,302	- -	-	-			
4,244	13,058	17,502	-	-	-			
102	6,498	6,600	-	-	-			
4,346	19,556	23,902	-	-	-			
3,960	(16,242)	(20,202)	(437)	463	900			
_	20,000	20,000	-	-	-			
-	-	-	•					
	20,000	20,000	-	-	-			
3,960	3,758	(202)	(437)	463	900			
_	119,510	119,510	_	61,378	61,378			
\$2,040	\$123,268	\$119,308	(\$437)	\$61,841	\$62,278			
\$3,960	4123,200							

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Friendship Township, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies.

THE REPORTING ENTITY

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity", the financial statements of the reporting entity include those of the Township and any component units. The basic criterion for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on these criteria, Middle Village Park is presented as a component unit.

DISCRETELY PRESENTED COMPONENT UNIT

Middle Village Park - The Park was created by a joint agreement between Friendship Township and Readmond Township to acquire certain real property located in Readmond Township for the purpose of creating lakeshore recreational facilities. Each township provided a total of \$119,370 for land acquisition that was matched with \$716,219 of State of Michigan funding. The State of Michigan has retained a 75% interest in all minerals in and under such land. The property was deeded to Readmond Township with an off-deed agreement transferring a 50% ownership interest in the real estate to Friendship Township. A five-member committee manages the park. The committee consists of a representative each of Readmond Township, Friendship Township, the Little Traverse Bay Band of Odawa Indians, and two representatives of the Greater Good Hart Association. The committee is required to adopt an annual operating budget approved by Readmond Township, Friendship Township and the Tribal Council of the Little Traverse Bay Band of Odawa Indians. Under the operating agreement, funding is to be provided by the townships and the Indian band. Friendship Township performs administrative functions for the Park and is the custodian of its assets.

FUND ACCOUNTING

The accounts of the Township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped by type in the financial statements. The following fund types and account group is utilized by the Township:

(Continued)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND ACCOUNTING (CONTINUED)

GOVERNMENTAL FUNDS

General Fund

The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund. Revenues are primarily derived from property taxes, State aid, and charges for services to provide for the administration and operation of general governmental departments, boards and commissions.

Special Revenue Fund

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes as dictated by legal, regulatory or administrative requirements.

The Road Fund is the only Special Revenue Fund of the Township. Therefore, there are no combining statements presented in the accompanying supplementary combining and individual fund financial statements.

Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital assets including lands, parks, roads and equipment.

FIDUCIARY FUND

Trust and Agency Fund

The Trust and Agency Fund is used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND ACCOUNTING (CONTINUED)

ACCOUNT GROUP

General Fixed Assets

This account group presents the fixed assets of the Township utilized in its general operations.

TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All Governmental and Agency Funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) as net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING

The Township follows the following procedures in establishing the budgetary data reflected in the financial statements:

- 1. Prior to the beginning of the fiscal year, the Township Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing on April 1.
- 2. Public hearings are conducted to obtain taxpayer comments.
- 3. Prior to March 31, the budget is legally enacted through passage of a resolution.
- 4. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Township Board.

The Township Board's budgetary procedures are in compliance with P.A 621 of 1978 (The Uniform Budgeting Act).

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order of the applicable appropriations, is not employed by the Township because it is, at present, considered <u>not</u> necessary to assure effective budgetary control or to facilitate effective cash planning and control.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of demand deposits, cash in savings and money market accounts.

INVESTMENTS

Investments are stated at cost and consist of bank money market funds, which invest, solely in short-term fixed income securities of the U.S. Treasury and U.S. Agencies.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECEIVABLES

Receivables are reported at gross value or net of a valuation allowance, if applicable.

DUE TO AND DUE FROM OTHER FUNDS

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

FIXED ASSETS

Fixed assets used in the general operation of the township are recorded as expenditures when purchased and are accounted for in the General Fixed Assets Account Group. No depreciation is recorded for these general fixed assets. Infrastructure assets, including streets, roads and sidewalks are not capitalized.

All fixed assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated fixed assets are valued at their fair market value on the date donated.

RESERVES AND DESIGNATIONS

Reserved fund balances indicate that a portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Designated fund balance indicates that a portion of fund equity for which the Township has made tentative plans. Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

PROPERTY TAX REVENUE RECOGNITION

Property tax revenues for the year ended March 31, 2004 reflected in the accompanying financial statements include property taxes levied December 1, 2003. These taxes are due by February 15, 2004, and are added to the County tax rolls after February 28, 2004. The Township receives 100% payment for the delinquent tax by June, 2004.

VACATION AND SICK LEAVE

There is no accumulated vacation or sick leave to be recognized.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTERFUND TRANSACTIONS

During the course of normal operations, the Township has numerous transactions between funds. The accompanying financial statements generally reflect such transactions as operating transfers.

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

Primary Government

The captions on the combined balance sheet relating to cash, cash equivalents and investments and the amounts in the Total (Memorandum Only) primary government column is as follows:

Cash and cash equivalents Investments	\$ 250 251,352
	\$251,602

At year-end the carrying amount of the Township's primary government deposits were classified as to risk as follows:

	Carrying Amount	Bank Balance
Insured (FDIC) Uninsured – uncollateralized	\$ 250 251,352	\$ 1,503 251,352
	\$251,602	\$252,855

For the year ended March 31, 2004, investments are stated at cost and consist of bank money market funds which invest solely in short-term fixed income securities of the U.S. Treasury and U.S. Agencies and are not insured by the Federal Deposit Insurance Corporation (FDIC).

(Continued)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Component Unit

The captions on the balance sheet relating to investments of \$21,682 in the Component Unit column consist of bank money market funds which invest solely in short-term fixed income securities of the U.S. Treasury and U.S. Agencies, stated at cost, and are not insured by the Federal Deposit Insurance Corporation (FDIC).

The GASB Statement No. 3 risk disclosures are as follows:

- 1. Insured or Registered, or Securities held by the Township or the Township's agent in the Township's name.
- 2. Uninsured and Unregistered, with Securities held by the Counterparty's Trust Department or its agent in the Township's name.
- 3. Uninsured and Unregistered, with Securities held by the Counterparty or the Counterparty's Trust Department or Agent, but not in the Township's name.

The Township's deposits and investments are in accordance with statutory authority.

Statutory Authority

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3: PROPERTY TAX REVENUE

The Township bills and collects its own property taxes and also taxes for other governmental units. Collections of the other governmental units taxes and remittance of them to the units are accounted for in the Trust and Agency Fund.

The taxable value of the Township totaled \$70,356,641, before Board of Review adjustments, on which ad valorem taxes consisted of .8784 mill for the Township's operating purposes, raising \$61,755 for operating purposes.

NOTE 4: GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance April 1, 2003	Additions	Deletions	Balance March 31, 2004
Land Buildings and	\$240,677	\$ -	\$ -	\$240,677
Improvements Furniture and	28,598	5,284	-	33,882
Equipment	42,905	1,214		44,119
Total primary government	312,180	6,498	<u>-</u>	318,678
Component unit		36,087		36,087
Total	\$312,180	\$42,585	\$ -	\$354,765

NOTE 5: INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows:

Fund	Interfund Receivable	Interfund Payable
General Tax Collection	\$56 	\$ - 56
Total	\$56	\$56

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 6: PENSION PLAN

The Township provides pension benefits through a defined contribution plan covering to all elected and appointed officials, which is administered by the Manulife Insurance Company. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Township Board, the Township contributes 7.5% of employees' gross earnings. In accordance with these requirements, the Township contributed \$2,790 for the year ended March 31, 2004.

NOTE 7: CONTINGENT LIABILITIES

The Township is contingently liable under an operating agreement with the City of Harbor Springs and several townships for a portion of the costs of monitoring and remediation of environmental issues arising from the closure of a solid-waste landfill located in an adjacent township. The township paid \$1,021 for its share for the fiscal year ended March 31, 2004.

NOTE 8: RISK MANAGEMENT

Friendship Township participates in the Michigan Municipal Liability and Property Pool for general liability, property loss, professional, public official errors and omissions liabilities. This plan is a self-insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan, through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of Friendship Township. Friendship Township pays an annual premium to the Michigan Municipal Liability and Property Pool for its general insurance coverage and has no additional liability beyond the premiums made to this plan and the \$250 deductible amounts.

The plan has a maximum liability for property of \$164,420, general liability of \$2,000,000, wrongful acts liability of \$2,000,000, crime of \$10,000, and bonding for public officials errors and omissions. Additionally, Friendship Township has purchased commercial insurance for workman's compensation benefits.

Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

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-	COMBINING AND INDIVIDUAL FUND FINANCIAL
-	STATEMENTS
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	GENERAL FUND

FRIENDSHIP TOWNSHIP GENERAL FUND SCHEDULE OF DETAILED REVENUES - BUDGET TO ACTUAL FOR THE YEAR ENDED MARCH 31, 2004

-		BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	Taxes:			
	Current tax collections			
	Swampland/commercial forest taxes	\$60,929	\$61,755	\$826
	Property taxes - administrative fee	4,876	4,876	-
	Penalties and interest	4,500	4,675	175
		3,400	1,163	(2,237)
	Total taxes	73,705	72,469	(1,236)
	State revenues:			
	State shared revenues			
	State grants	58,000	56,982	(1,018)
_			7,500	7,500
	State revenues	58,000	64,482	6,482
_	Charges for services:			
_	Cemetery lots			
		800	1,710	910
	Interest and rentals:			
	Interest			
	Other rentals	500	227	(273)
			140	140
	Total interest and rentals	500	367	
	Other revenue:			(133)
_	Land division fees			
	Reimbursements and other	-	550	550
	and other	8,100	249	(7,851)
	Total other revenue			(7,031)
		8,100	799	(7,301)
	TOTAL REVENUES	\$141,105	\$139,827	(\$1,278)

FRIENDSHIP TOWNSHIP GENERAL FUND SCHEDULE OF DETAILED EXPENDITURES - BUDGET TO ACTUAL FOR THE YEAR ENDED MARCH 31, 2004

	CURRENT:	BUDGET	A COMPANY	VARIANCE FAVORABLE
	LEGISLATIVE		ACTUAL	(UNFAVORABLE
	Township board	\$4,432	\$4,032	\$400
_	GENERAL GOVERNMENT			3400
	Supervisor			
	Elections	8,664	8,263	401
_	Professional Services	700	_	700
	Assessor	4,000	3,720	280
	Clerk	13,032	13,025	200
	Board of Review	8,964	8,641	323
	Treasurer	1,200	849	351
	Land division administration	11,964	11,732	
	Township process of	1,500	1,433	232
-	Township property	11,732	10,156	67
	Cemetery	2,300	1,420	1,576
7 0.	Om 17		1,420	880
T	OTAL GENERAL GOVERNMENT	64,056	70.00	
_		04,030	59,239	4,817
	UBLIC SAFETY			
	Planning & zoning	15 000		
•		15,000	10,964	4,036
PU	JBLIC WORKS			· · · · · · · · · · · · · · · · · · ·
	Highways and streets - dust control	48.55		
;	Street lighting	13,500	6,875	6,625
•	Sanitation	100	79	21
		15,436	15,436	
TO	OTAL PUBLIC WORKS			
•	- 13326 WORKS	29,036	22,390	6,646
RE	CREATION AND CULTURE			
	Library			
•	2101 at y	345	345	
TO	TAL DECREATION AND			
10	TAL RECREATION AND CULTURE	345	345	
O.T.	III D			
	HER			
	nsurance	3,695	2 (0=	
	ues and memberships	1,100	3,695	-
	ducation	1,000	1,061	39
	ringe benefits		120	880
C	ontingency	4,500	3,644	856
		4,224		4,224
TOT	TAL OTHER	44		
		14,519	8,520	5,999
TOT	AL EXPENDITURES			
		127,388	105,490	21,898
ОТН	ER FINANCING USES			
	rating transfers to other funds			
-	C to other runus	20,000	20,000	_
T	OTAL EXPENDITURES AND OTHER			
	FINANCING USES			
	- AMERICANO USES	\$147,388	\$125,490	¢21 000
		- 14 -		\$21,898

CAPITAL PROJECTS FUNDS

FRIENDSHIP TOWNSHIP CAPITAL PROJECTS FUNDS COMBINING BALANCE SHEET MARCH 31, 2004

ASSETS

_	RECREATION	CAPITAL OUTLAY	TOTAL
ASSETS:			
Investments	\$69,157	\$54,111	\$123,268
TOTAL ASSETS	\$69,157	\$54,111	\$123,268
FUND BALANCES			
Designated for subsequent years' expenditures			
Unreserved, undesignated	\$3,000	\$30,476	\$33,476
andesignated	66,157	23,635	89,792
TOTAL FUND BALANCES	\$69,157	\$54,111	\$123,268

FRIENDSHIP TOWNSHIP CAPITAL PROJECTS FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED MARCH 31, 2004

-		RECREATION	CAPITAL OUTLAY	TOTAL
REV	ENUES:			
- State	e grants	**		
Inter	rest	\$2,500	\$ -	\$2,500
		473	341	814
— TO	OTAL REVENUES	2,973	341	3,314
EXPI	ENDITURES:			
	eation and culture			
	tal outlay	13,058	-	13,058
_	•		6,498	6,498
_ TO	OTAL EXPENDITURES	13,058	6,498	19,556
REVE	ENUES OVER (UNDER) EXPENDITURES	(10,085)	(6,157)	(16,242)
ОТНЕ	ER FINANCING USES			,
	ating transfers from other funds	10,000	10,000	20,000
REVE	NUES AND OTHER SOURCES OVER			
(UND	DER) EXPENDITURES AND OTHER USES	(85)	3,843	3,758
FUND	BALANCES - BEGINNING OF YEAR	69,242	50,268	119,510
FUND	BALANCES - END OF YEAR	\$69,157	\$54,111	\$123,268

_	
_	
_	
-	
-	TRUST AND AGENCY FUND
-	
-	
•	
•	

FRIENDSHIP TOWNSHIP ALL AGENCY FUNDS COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES FOR THE YEAR ENDED MARCH 31, 2004

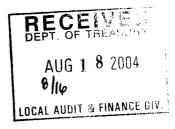
	TAY COLLECTION BUND	BALANCE APRIL 1, 2003	ADDITIONS	DELETIONS	BALANCE MARCH 31, 2004
	TAX COLLECTION FUND				
	ASSETS:				
	Cash	<u> </u>	\$1,846,428	\$1,846,372	\$56
	I I A DIV YOUNG				
	LIABILITIES:				
	Due to other funds	\$ -	\$55,399	\$55,343	\$56
_	Due to other governmental units	-	1,791,029	1,791,029	
	TOTAL LIABILITIES	\$	\$1,846,428	\$1,846,372	\$56



Member:

American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

July 20, 2004



Township Board Friendship Township Emmet County, Michigan

In planning and performing my audit of the general purpose financial statements of *Friendship Township*, *Emmet County*, *Michigan*, for the year ended March 31, 2004, I considered the Township's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

However, during my audit I became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated July 20, 2004 on the financial statements of *Friendship Township*.

Thank you for the opportunity to serve *Friendship Township*. I appreciate the assistance I received from the Clerk, Treasurer and Supervisor during my audit. Best wishes in the next year.

Wall St

Sincerely,

Richard E. Mahlmeister, C.P.A.

Friendship Township Comments & Suggestions July 20, 2004 Page 2 (two)

SEGREGATION OF DUTIES

Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgement, could adversely affect *Friendship Township's* ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

As in the prior year, the reportable condition that exists is that there is a lack of segregation of duties in both the receipting and disbursement function of the Township. This condition is generally inherent in organizations the size of *Friendship Township*, where corrective action is not practical, and is not considered to be a material weakness.

UPCOMING FINANCIAL REPORTING CHANGES

In 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments, the most significant change in the history of government financial reporting. These new requirements for the annual financial reports of state and local governments become effective for Friendship Township for the year ended March 31, 2005 (the first audit year will be March 31, 2006) and may take time to implement.

As the effective date will be next audit year (March 31, 2006), I would be pleased to explain these changes and what they mean for Friendship Township as well as assist in implementing this new standard.